CITY OF TORONTO HOUSING REVIEW

Prepared by

Comay Planning Consultants Ltd.

November 1984

Comay Planning Consultants Ltd.

219 Front Street East • 2nd floor • Toronto, Ontario M5A 1E8 • (416) 864-0703

November 19th, 1984

Mayor Arthur C. Eggleton
City of Toronto
City Hall
Toronto, Ontario

Dear Mayor Eggleton:

I am submitting for the City's consideration the housing review that I was asked to prepare.

The terms of reference for the review were drawn up to cover a wide range of housing issues confronting Toronto and other large cities, with a view to developing proposals for consideration by the City of Toronto and the Provincial and Federal governments. As the review progressed it became evident that it should focus on the operation of the municipal housing program, because this is, in the end, the main vehicle through which the City can deal effectively with the need for affordable housing. While the report is directly concerned with matters affecting the operation of Cityhome, the principles that are developed in the review should have general applicability for other large communities in Ontario.

In preparing the review I consulted with a number of parties involved in housing matters. These are listed in the report. The contribution of these parties was very useful, and their cooperation is gratefully acknowledged. I am particularly grateful to the Commissioner of Housing and his staff, who provided a great amount of necessary information and who carried out various statistical and financial analyses that provide the basis for some of the specific proposals made here.

I was pleased to be able to carry out this assignment, and hope that the review will be useful to the City and the two senior governments in dealing with the question of affordable housing.

Yours very truly,

Eli Comay

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EC/sm

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SUMMARY AND RECOMMENDATIONS

1. This review concerns mainly the operation of municipal housing in Toronto, as a major vehicle for meeting low and moderate-income housing needs. It does not deal with the "housing problem" as such, or with major long-term structural changes in the housing system. The report assumes there should be an ongoing municipal housing responsibility, and focusses on the respective Federal, Provincial and municipal roles. While dealing primarily with the situation in Toronto, the principles employed should be applicable to other large communities.

2. There is a substantial unmet need for affordable rental housing in Toronto which is far greater than existing programs will or can supply. For low-income households the active need may be in the order of 8,000 to 10,000 units, and there is an incipient need for 30,000 or more units. The private housing industry is unable to produce affordable rental housing at moderate income levels, even with available government support programs. Private rental housing of any kind is to all intents and purposes not being built, and is not in prospect to any significant extent.

3. It can be assumed that non-profit housing will continue to be the main vehicle for meeting social housing needs in the short-term, and that if the non-profit programs are abandoned the supply of additional social housing or housing assistance will effectively come to an end. The key issue, in the end, is not what to substitute for the present programs but how to pay for them. The central question concerns money: how to secure the necessary funds in the most suitable way, and how to use them in the most effective way.

4. As the program now operates, assistance is provided both to moderate income tenants living in "market" units and to low income tenants, who occupy about 1/3 of the Cityhome housing stock. In the newer market units average rents tend to be set near the top of the moderate-income range, and at the other end of the scale current Provincial policy is to direct low-income housing assistance to the "neediest of the needy". This results increasingly in a situation where households with low to moderate incomes are excluded or forced to pay a disproportionate share of their income in rent. Non-elderly single persons and families without children are also excluded, irrespective of need. It is increasingly difficult under the circumstances to secure a tenant mix which reflects normal neighbourhood and community housing patterns, as the program is intended to do. A system of differential assistance providing varying levels of subsidy, both deep and shallow, and a broadening of the program to include all normal types of households, is required.

5. In the buildings built before 1979 market rent levels are based on operating costs, but for units built after that date they are based on comparable rents in nearby private buildings not covered by rent review. Prevailing rent levels in these two kinds of buildings are not dissimilar, nor on the whole are there sharp differences in the pattern of rent increases. Nevertheless the procedure used for the "new" program (comprising 1/3 of the total portfolio) generates relatively high rent levels in the very recent buildings and effectively precludes any serious incentive for cost saving practices on the part of either tenants or building management. Uniform "cost pass through" procedures for determining rent increases are needed.

6. Overall, the Federal government now pays for about 70% of the total grant support required to operate the City's housing portfolio, and the Provincial government 30%. In the new buildings, using "low end of market" rent procedures, the annual Provincial contribution averages

5% to 10%. As the program is now structured Provincial financial participation in a project effectively ends in a period of 3 to 5 years, while the Federal contribution may last 25 or 30 years. This wide and growing disparity is leading to an increasingly unilateral funding arrangement that probably cannot persist in the long run. It seems obvious that if municipal housing continues to be produced, cost sharing arrangements involving higher Provincial contributions will be required.

7. The City's current role is to build and manage, under detailed Provincial supervision, a stock of housing in which it has no direct financial interest. The lack of a true financial stake and the extent of Provincial control serve to reduce incentives to management efficiency, contribute to administrative inefficiences, and constrain the City from operating the housing stock in a coherent way vis-a-vis its housing objectives. Assuming a true partnership position through direct financial involvement would provide a direct incentive to efficient management and a legitimate basis for the City to benefit from long-term asset appreciation. It would also reinforce a claim to relative autonomy in program operation, as against the present approval system.

8. The exclusion of existing buildings represents a serious deficiency in the program. The City's rental housing supply is now at some risk, particularly the stock of older buildings which cannot support the investment needed for modest renovation or upgrading to contemporary standards. Indications are that such buildings can be acquired and improved at end costs substantially below equivalent new construction. The importance of maintaining a continuing supply of rental accommodation in the City, and the shortage of suitable sites for new municipal housing development indicate a need to broaden the scope of the municipal housing program to include existing buildings.

Recommendations

1. The municipal housing program should be broadened to serve the entire band of low and moderate income households, including those now not eligible for assistance, operating under a progressive subsidy structure which relates the degree of assistance to relative need. Tenants should be income-tested at entry, and those receiving assistance should pay income-related rents; for tenants exceeding the moderate income level a suitable surcharge over market rents should be applied. Tenant selection priorities within each target income group (low, low-moderate, and moderate) should be based on relative need and should operate to produce a rough balance of occupancy among the three groups, both within individual projects and across the program as a whole.

2. The program should be redesigned to provide a reasonable degree of certainty for the parties concerned. Senior governments should have fixed financial obligations; the municipal housing agency should be able to establish planning and development programs extending over 3 to 5-year periods; tenants should be reasonably certain of their future rent requirements or the basis of their calculations; and prospective tenants should be aware of their waiting list position and prospects. This requires a substantial restructuring of many of the present arrangements.

3. The program should employ an entrepreneurial operating style which allows the City to respond to development opportunities as they arise, including the acquisition of existing buildings; to exploit suitable opportunities for joint ventures with private interests; to maximize the asset value and borrowing potential of the City's housing stock; and to budget on a program basis and operate on a scale which supports efficient program management and development. This will entail a degree of operating autonomy which cannot be exercised under the present arrangements, which involve detailed operating supervision and fluctuating unit allocations.

4. To achieve these objectives the program financing should be restructured. Municipal financial participation should be by way of an equity contribution in the form of building sites. Instead of their present annual payments, the senior governments should make one-time front-end capital grants; these should be designed to reduce the economic rents to moderate-income levels, and to support the necessary deep and shallow rent subsidies over a limited period of negative cash flow (about 5 to 7 years). At the end of this period, internal project "profits" should be expected to support the required rental assistance through cross-subsidization. With the suggested 20% municipal equity, it is estimated that a capital grant of about $36,000 per unit would be capable of supporting a tenant mix of 40% RGI/60% LEM. To achieve the proposed target mix (1/3 deep subsidy, 1/3 shallow subsidy, 1/3 LEM) would require an estimated capital grant of about $42,000 per unit. (This represents one kind of program model; other models, involving low-interest or interest-free loans instead of one-time grants, or separating out capital cost write-downs from ongoing rental assistance, could be examined.)

5. For the next several years Cityhome's production target (including the acquistion of appropriate existing buldings) should be set at about 500 units per year. This would support an efficient level of planning and development operations and be consistent with the agency's organizational resources. It would also constitute a target rate which at present levels would probably serve to stabilize the active waiting list.

6. The estimated scale of costs under these arrangements can be indicated. At this level of production the required investment by the City would be about $7 million a year in mortgagable assets (equivalent to perhaps $5 million in outlay). This contribution could be provided through a property bank (land and buildings), operated as a revolving fund as properties are mortgaged out. For the two senior governments, the indicated capital write-down for 500 units a year would amount to a total of about $21 million a year. This would presumably involve Federal and Provincial cost sharing under an agreed formula which differs from the present cost sharing arrangements.

PURPOSE AND SCOPE OF REPORT

This review of housing was commissioned by the City of Toronto partly to provide some assistance to the Federal and Provincial governments in their current consideration of housing policies and programs. It is also intended to offer guidance to the City in the organization of its housing activities. It focusses on the operation of the municipal housing program in Toronto, and what should be done with this program.

The review is narrow in scope, both in terms of subject matter and geographically. It does not present an analysis of the "housing problem" as such, which has been the subject of exhaustive study over many years and on which a wide range of opinions and conclusions are to be found.

The report deals with the question of municipal housing, because this now represents a main vehicle for providing affordable housing and also because it is the only vehicle in which the City itself plays a major role. While other social housing activities (cooperative and private non-profit housing, Metropolitan Toronto's housing company, etc.) play an important role in dealing with affordable housing and require continued support, in the end it is through its own housing program that the City of Toronto exercises a significant level of housing responsibility. The report concentrates on Toronto, but the experience of housing agencies in other large communities has been taken into account to an extent. The principles that are elicited here should have general applicability, but the concern in the end is with what should be done to facilitate the operation of municipal housing in Toronto, as a primary vehicle for meeting housing needs in the City.

In specific terms, this review concentrates on the machinery for meeting the needs of low and moderate-income households for affordable rental housing. The report is limited in its time frame. It does not deal with

long term prospects, but with the situation as it now stands and with arrangements that may be put in place in the short-term, over the next 3 to 5 years say.

The report does not deal with possible major structural changes in the present system for dealing with housing and providing housing assistance. Irrespective of the merits of such changes, they are under the best of circumstances not likely to be put in place within this kind of time frame. It is considered that the outstanding questions concerning the operation of municipal housing programs must be addressed essentially in their own terms; that even if some fundamental structural changes could emerge they are not a near-term prospect. What is necessary is to deal with municipal housing as part of the basic housing system already in place. The particular structural questions which fall outside the scope of the report include the following:

a. Rent Control

Much of the debate concerning the supply of rental housing and the provision of affordable housing focusses on the presumed impact of rent control on the operation of the private housing industry. Regardless of the merit - or otherwise - of the case that is made, there is no good reason to suppose that the rent review process is likely to be abandoned in Ontario in the foreseeable period. The subject may be of interest, but is not within the focus of this review.

b. Shelter Allowances

Despite strong industry pressure for a shelter allowance program and indications of Federal interest in providing some housing assistance through shelter allowances, there is no reasonable prospect for early adoption of a shelter allowance program that has sufficient scope to meet the housing needs now dealt with through non-profit housing.

It seems clear that the factors militating against a universal shelter allowance scheme (its potential costs, the lack of available rental housing, its inflationary implications, rent control, etc.) are too potent to contemplate early adoption of such a scheme. What might be envisaged at best for the near term could be the institution of limited schemes (as have already been suggested) with relatively narrow client targets and restricted benefits. Though there may be important long-term implications with respect to shelter allowances, the subject does not materially affect the focus of this review, which is the operation of the municipal housing program in the short-term. For the purpose of this review there is no need to deal with the merits or otherwise of a shelter allowance program.

c. Tax Expenditures, etc.

The scale of assistance provided to private housing through tax expenditures and various government support programs is also the subject of considerable debate. While perhaps bearing on the question of equity in the distribution of public resources, it is not a matter germane to the present exercise. Whatever happens in this regard, if anything, is not likely to have an early impact on the matter of concern here — the operation of the municipal housing program in meeting the needs for low and moderate-rental accommodation.

d. Stock Rationalization

Redistribution of the existing housing stock so as to secure a better match between need and supply (eg. making "better" use of "underoccupied" houses) is another kind of structural change that receives attention in the housing debate. It too is a subject outside the scope of this review. While it receives some attention from current Provincial programs dealing with conversion and intensification, and is affected to an extent by municipal planning policies, it does not seem likely that a stock rationalization program of sufficient scale to seriously affect the need for housing assistance programs will materialize over a foreseeable period.

e. Housing as a social resource

Also outside the scope of the review are such ideological questions as whether housing should continue to be treated as an economic good or dealt with as a social resource. While the report stresses the importance of a strong public presence in the ownership and maintenance of the rental housing stock, it does so largely as a matter of pragmatic necessity and in relation to the operation of the municipal housing program, rather than on the basis of underlying ideological or philosophical premises.

Finally, it is noted that the review does not deal directly with the other major non-profit housing activities, such as cooperative housing. These play an important role in the provision of affordable rental housing, and are confronted with many of the same issues that now affect the operation of municipal housing. Some of the basic propositions presented here may be seen to have some applicability to the non-profit housing area generally, and it is assumed that the City of Toronto, as an example, will continue to give technical and other support to cooperative and private non-profit housing. However, their structure and relationship to the senior governments, among other things, is significantly different from that of municipal housing, and it has been necessary to exclude these housing activities from the scope of this review.

ASSUMPTIONS AND FINDINGS

This review starts with certain findings concerning the housing situation in Toronto and basic premises and assumptions regarding public involvement in the provision of affordable housing. These derive from an appreciation of the available facts, but are a matter of basic philosophy as well.

The main findings, premises and assumptions that have been used in developing this report are:

1. There is a substantial unmet need for affordable rental housing in Toronto. For low-income households the current "active" need may be in the order of 8,000 to 10,000 units, and there may be an "incipient" need for 30,000 or more units.* Though these figures cannot be established categorically, the likely need is far greater than the potential supply, and at recent production rates it would take 20 or more years to supply the current active need for low-income housing.

2. The private housing industry is unable, for various reasons, to produce rental housing at an affordable level for moderate-income households. Almost no rental housing of any kind can be produced without the use of government support programs (such as CRSP), and even with CRSP assistance the housing produced requires an indicated household income of perhaps $45,000 to $50,000 per year, which is substantially above the prevailing median income level in Toronto. Without such support,

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* The estimate of "active" needs derives from an analysis of the current waiting lists for social housing in Toronto. The "incipient" need, as calculated from demographic and survey data developed by Metropolitan Toronto, can be seen as a measure of the number of units that could be filled by low-income households requiring such housing, if they were available. The figures used here are consistent with CMHC's estimate of 180,000 Ontario households with "core" housing need (i.e. unable to afford adequate, uncrowded housing without paying more than 30% of gross income in rent).

private apartment development is as a rule unable to generate positive cash flow for a period of many years, and is to all intents and purposes simply not taking place.

3. Rental housing being produced in the metropolitan Toronto area is as a rule confined to a few large private land banks, on sites assembled much earlier for this purpose. Very few new sites are being acquired for apartment purposes, and very little new apartment development is being planned from scratch. The shortage is affected by the general difficulty of small builders in securing bank financing for the acquisition of infill sites for moderate density buildings; this problem is exacerbated by their inability to get advance commitments from non-profit developers (cooperatives, municipal turnkey projects, etc.), due to the uncertainty of unit allocations for this purpose.

4. In the absence of new housing from the private sector, it can be assumed that non-profit housing will continue to be the main vehicle for meeting low and moderate income needs. The corollary assumption is that if the non-profit housing programs are abandoned, the supply of additional social housing or housing assistance will effectively come to an end. Other forms of housing assistance that have previously been employed or are currently put forward for consideration do not present a viable alternative to non-profit housing, at least in the near future. The following can reasonably be assumed:
   a. Conventional public housing will not be produced to any significant extent in the future. Regardless of the merits or faults, it is fair to conclude that the basic unacceptability of public housing projects to their immediate neighbourhoods renders them realistically unacceptable at the local political level. The evidence is clear that without substantial local acceptability, public housing cannot be produced, except in special, narrow circumstances.

b. Shelter allowance programs, as already noted, are not likely to be put in place in any broad way in the near term. To the extent they are introduced, such programs are likely to be narrow in scope and restricted in the scale of assistance provided. Their potential will be particularly limited in tight housing market areas, such as Toronto.

c. Private rent supplement programs may continue to be offered, but the unavailablity of a significant stock of rental housing suitable for this purpose will almost certainly limit their scale. Such programs are particularly difficult to carry out in significant numbers in tight housing market localities.

It is, in sum, a fair assumption that if additional housing assistance is to be provided in any significant way, the main vehicle for doing so will be some form of the non-profit housing program.

5. While the scale of Federal funding for housing assistance in the short term may be in some doubt, it is reasonable to assume that at least a minimum-scale social housing program will be maintained as policies and programs undergo review, and that both senior governments will continue to devote substantial sums to housing assistance.

What is in question is whether the present mechanisms for housing assistance can be made more effective. Among other things, it would be a sensible assumption that the senior governments will find it advantageous to alter the present open-ended nature of many of the funding mechanisms in place, in favour of fixed commitments.

6. The final premise concerns the municipal responsibility for housing. It is assumed there are substantial and important benefits in securing and maintaining a significant stock of rental housing in municipal ownership or control. It is taken as given that it is necessary to keep in place

an adequate supply of rental housing. While the municipality is unlikely ever to account for a high share of the total rental housing stock, even a modest portfolio, suitably distributed and comprising an appropriate range of dwelling types, will help support a desirable level of fluidity and mobility in the use of the housing stock. It is also taken for granted that long-term asset appreciation represents an important benefit for the City, as does the accompanying ability to determine the specifications for long-range redevelopment or re-use of City-owned property.

The fact is that Toronto has for many years accepted a major housing responsibility, including the establishment of housing policies and the direct provision of housing. While falling short of its official planning targets, the City's housing program has been reasonably successful. Given the present situation with respect to rental housing generally, and affordable housing in particular, it is a sound premise that the municipal responsibility for housing should continue, and a sound assumption that it will continue.

WHO IS SERVED BY MUNICIPAL HOUSING? WHO SHOULD BE SERVED?

Of the various issues that arise with respect to municipal housing in Toronto, the key question in many respects concerns the service that Cityhome provides; whether municipal non-profit housing, as it now operates in Toronto, is serving the right housing needs. The program is intended to provide housing at affordable rents for households with low and moderate incomes (formally defined in Toronto as being below the prevailing median income). While the rent supplement units (RGI) for low-income households are assigned on the basis of separate Provincial standards, concern is expressed that the "market rental" units (accounting for 2/3 of the total Cityhome portfolio) are priced too high for moderate income households. Rents for the newer market units are not determined by their cost, as is ostensibly the case with private housing, but derive from the so-called "low end of market" (LEM) for comparable private apartments in the general vicinity of a given Cityhome building. The Provincial procedure for establishing comparable rents excludes buildings falling under rent review (i.e. older and generally cheaper apartments), with the inevitable result that Cityhome rents are pegged to the rents charged for new or relatively costly private apartments. The situation is compounded by the fact that many Cityhome buildings (accounting for about 70% of the total stock), are located in the central area, where private market rents are high.

The result has been to establish rent levels for Cityhome's newer market units that are generally believed to be beyond the reach of moderate income families. The available facts tend to support this view to an extent. In the new Cityhome buildings average rents are within the range of affordable rents for moderate-income households, as formally defined in Toronto, but appear to fall near the top of this range (*Footnote: see next page). (This definition is, in essence, that the median income level presents an appropriate

benchmark for "moderate" incomes, and that rents equivalent to 25% of gross household income, exclusive of utility costs, represent an appropriate measure of "affordability". While these standards may be debatable, they are the ones used in dealing with municipal housing in Toronto.)

What is likely the case in the new buildings is that tenants who happen to be at the lower end of the moderate-income range are paying substantially more than 25% of their income in rent. As these rents are raised annually, in accordance with the trend in nearby private apartments, such tenants may in many cases find it necessary to move. As the figures show, except for bachelor apartments the market rents in this year's buildings are running some 12% to 24% higher than in the buildings completed last year. Under the present rent setting procedures, it seems likely that the market units in new Cityhome buildings will be affordable mainly for households whose incomes are at or near top of the moderate income range.

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* (from preceding page) The available information is as follows:

	Toronto "Moderate" Income*	"Affordable" Moderate Rent**	Average Rents*** 1983 Units	1984 Units
Bachelor	$10,100-18,200	$210-380/mo	$380/mo	$375/mo
1-bedroom	13,500-24,000	280-500	410	510
2-bedroom	20,600-33,600	430-700	505	620
3-bedroom	23,500-36,000	490-750	620	690

* Derived from 1983 income distribution by household size
** Based on 25% of household income, exclusive of utility costs (average $45-$95/month)
*** 446 market units completed in 1983; 451 units to be completed in 1984

A related issue is the question of income ranges and polarization in Cityhome projects; a concern that Cityhome units are occupied by "rich" people, and that there is too wide a gap in incomes between the rent supplement tenants (RGI) and the market tenants in individual buildings. Regarding the first concern, there is no evidence of real abuse. The available information is that households with incomes above the city-wide median comprise about 2% to 3% of all Cityhome tenants, and perhaps 10% of the tenants in the newer buildings. While there are certainly some Cityhome tenants with high incomes it is not likely that the program's objectives have been seriously distorted in this respect. As noted later, it is considered that the appropriate way to deal with high-income occupancy is to put in place an appropriate rental surcharge.

With regard to the question of polarization, the evidence is also not very persuasive. There is in fact a wide range in tenant incomes in the newer buildings (running from $2,500 to $60,000 at Asquith Place, for example). As well, many of the new buildings do not display a smooth continuum of tenant incomes (e.g. having relatively few tenants in the $10,000-20,000 category, compared to those below $10,000 or above $20,000). Whether the operation of the buildings would benefit significantly if there were an appreciable number of tenants in every income band is speculative. Put another way, it is difficult to see that project character or stability is seriously demaged by not having a proportionate share of $10,000 to $20,000 tenants in a given building.

What is at issue, however, is the more fundamental question of how housing assistance is allocated. The present program provides substantial assistance to moderate-income tenants, and considerably more assistance for poor households. (In 1982, the average write-down for all of the 3,600 Cityhome units then in place was about $160 per month; for the RGI (low-income) units, there was an additional subsidy of $260 per month, amounting to a total monthly subsidy of $420 for these units.) In practice, the market

housing assistance goes to households at or near the top of the "moderate income" range. For the poor tenants, the emerging practice, as established by the Provincial government, is to try to allocate the additional rent subsidy to the so-called "neediest of the needy". The allocation of housing assistance is affected as well by the fact that major groups — non-elderly single persons and families without children — are excluded from the program.

While the underlying rationale for giving assistance priority to those who are most needy is clear, there is some doubt as to the fairness or equity of an arrangement that in practice withholds assistance to others who, though needing less help, are likely without such help to remain equally deprived of affordable accommodation. It is also dubious to deny assistance to specific groups — single persons and childless families — presumably on the basis that they are somehow less "needy".

In the present housing market there are many families at low to moderate income levels, with and without children, and single persons, who require some degree of housing assistance. Such households should in fairness receive an appropriate share of the public resources available for this purpose. They may well require less help than the neediest; the issue is how to develop appropriate arrangements in which differential housing needs can be met with differential degrees of assistance. What is required in operational terms is a system which distinguishes between the kind of deep housing subsidy now allocated to the very needy, and the relatively shallow subsidies required to supply affordable housing to the less needy households with low to moderate incomes.

The question is related to that of tenant mix. The program operates from a premise that all buildings and developments should house residents with a range of incomes, with the explicit objective of avoiding the low-income "ghettoization" that characterizes many earlier public housing developments. The guiding principle is to allocate 1/4 of the units in any given development to very poor households, but the Provincial government is currently trying

to raise this proportion to 35% in the new developments. Either ratio is essentially arbitrary; while it cannot be demonstrated conclusively that buildings will "work" better if low-income tenants are restricted to either 1/4 or 1/3 of the total occupancy, there is a general conviction that some ratio probably represents a suitable maximum in an operational sense.

At present, low-income tenants receiving a direct rental subsidy (RGI) occupy about 37% of the total Cityhome stock (including scattered individual houses) and about 34% of the 4,300 units located in conventional Cityhome projects. About 2/5 of the total stock is in projects with between 25% and 35% RGI occupancy, and about 1/4 of the Cityhome tenants live in buildings or developments where RGI occupancy is higher than 35%. There are five projects with extreme RGI ratios. Two projects have less than 20% RGI occupancy, and at the other end of the scale there are three projects with 60% to 70% RGI tenants (one of these a very large project of 375 units).

If it is accepted that the current Provincial target of 35% RGI occupancy is a suitable standard, and that an effort should be made to bring existing Cityhome developments to that level, numerous tenant transfers would be required. Altogether, about 300 market units, located in 35 different projects, would have to be converted to RGI occupancy, and 250 units, in 9 different projects, would have to be changed from RGI to market tenancy. It would be very difficult to bring about such a level of occupancy transfer, given the prevailing turnover rates. At best, only minor changes in occupancy can realistically be foreseen. The question remains, however, whether the "extreme" cases noted above should continue to be accepted, or whether an explicit effort should be pursued to secure a better balance in the specific projects involved.

Conclusions

Certain principles can be established regarding the allocation of municipal housing units. These relate directly to conclusions concerning the financial structure of the municipal non-profit housing program, which are discussed later. The governing assumption in this respect is that the capital cost of producing non-profit housing will continue to receive a write-down to bring the level of market-unit rents to an affordable moderate-income level. From this starting point the following is concluded:

1. Municipal housing projects should house three groups of tenants with different economic characteristics: a) Market tenants with household incomes near the upper range of moderate-income levels; for these households, no further rental subsidy would be required, as is already the case; b) Households in the low-to-moderate income range, who will require a relatively shallow subsidy to reduce the market rent to an affordable level; this is more or less the group that is now not being housed by Cityhome; c) Low-income households requiring a deep subsidy, as at present. The governing principle is that tenants should be "income-tested" at entry and that rent paid by tenants receiving housing assistance should continue to relate to their household income, For tenants who exceed the moderate income level, a suitable surcharge over market rents should be applied.

2. Within each group, tenant selection priorities should be based on a measure of relative need. Tenant selection should operate so as to produce a rough balance of occupancy among the three groups in any given project, though this should not require literal division into equal thirds in each project. As a guiding principle, it is probably desirable that none of the tenant groups should occupy more than half of the units in a project, and a long-term effort should be made to eliminate present extreme imbalances in tenant composition in existing Cityhome projects. The long-term objective should be to secure a rough balance among these three groups of tenants across Cityhome's total housing stock, taken as a whole.

3. Occupancy in Cityhome projects should be opened up to non-elderly single persons and families without children. Insofar as municipal housing is expected to be representative of and fit into normal neighbourhood and community patterns, it should also be expected to house the range of household types found in the community as a whole, rather than being arbitrarily restricted against certain types of occupancy, as is now the case.

OPERATION OF THE PROGRAM

Apart from the central question of whom the municipal housing program serves, the operation of the program raises two important issue. These concern, first, the procedures for setting tenant rents and annual rent increases, and second, the availability of housing sites and the use of existing buildings in the program.

Rent Procedures

Depending on their status and the kind of building they are in, municipal housing tenants pay rents calculated in different ways. For low income tenants the initial rents and any annual adjustments are related directly to income, under procedures that are relatively straightforward and do not present serious administrative problems. For tenants in the market units built under the "old" program (pre-1979) rent increases are based on a pass-through of building and project costs, as is more or less the case with private housing. But for tenants in "new" program buildings, whose initial rents were set at the "low end of market", the annual rent increases are calculated on the same LEM basis, that is on a determination of what has been happening to rents in comparable private buildings that are not subject to formal rent review.

This raises, first, the issue of differential treatment. In practical terms, this may not present a serious problem. Rent levels in "old" and "new" program buildings are roughly the same, on average (though there are considerable individual variations)*. With respect to rent changes, rents in

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* Average 1984 rent levels are as follows:

	(Sec. 15.1) Old Program	(Sec. 56.1) New Program
Bachelor/One Bedroom	$340-$425	$360-$445
2 bedroom	$485	$545
3 bedroom	$640	$640
4 bedroom	$720	$715

"old" units were raised by an average of 7.9% this year, and in "new" units by 7.2%. And a review of a sample of nine "new" projects indicates that if the current rent adjustments had been based on "cost pass through" factors instead of "low end of the market", twice as many tenants would have been worse off than would have been better off.*

A serious issue is that the LEM rent-adjustment process is totally artificial. That is, the rents paid by Cityhome tenants are determined not by intrinsic economic factors but by external considerations totally outside the influence either of the tenants or of their landlord, and totally unrelated to circumstances within their own building or project. Apart from the fact that the determination of comparable "LEM" rents is a bureaucratic process involving a range of relatively arbitrary judgements, the mechanism effectively precludes any serious incentive for cost saving practices on the part of either tenants or building management.

There is also concern that for the market unit tenants, in old and new units alike, the amount of the annual rent increase is, in the end, determined unilaterally. While projected rent changes are discussed with organized tenant committees in several of the Cityhome buildings, the ultimate decision is made by the Cityhome Board; in the case of the "old" units, on the basis of available cost data, and in the case of the "new" units on the basis of a Provincial determination as to the required rent levels. Resort to an independent tribunal for the purpose of adjudicating permissible rent increases is not available to residents in municipal non-profit housing.

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* In the nine projects examined, seven small projects, with a total of 268 units, would have had an average rent increase of 3% under cost-pass-through factors, as against 7.3% under LEM factors. For two large projects with 584 units, cost-pass-through rent increases would have averaged 7.4% as against 5% on an LEM basis.

Conclusions

The principles for dealing with the question of rent increases are straightforward. As a matter of equity there should be consistent treatment of Cityhome residents across the entire portfolio, irrespective of the particular financing program under which their building falls. While there are legitimate and practical reasons under the present program for differences in the initial rents charged for similar size units (location, construction and financing cost, etc.), this should not apply to rent adjustments. Even though tenants in municipal housing are not accorded all the legal rights available to tenants in private housing, the machinery for establishing rent increases should to the greatest extent possible replicate that which is available for private housing tenants; this means that rent increases should be based on cost-related factors, and that a suitable mechanism should be available to settle differences of opinion as to these factors. Cityhome is currently examining the possibility of establishing an informal adjudication procedure, but conversion to a cost-pass-through mechanism for "new" units would require fundamental revision of the existing agreements with the Federal and Provincial governments. Apart from the question of equity, it can be assumed that relating rent increases to operating costs may provide substantial incentives for operating economies on the part of both tenants and building management.

Building Sites and Existing Apartments

The availability of sites may seriously constrain a substantial increase in the supply of municipal housing in Toronto. Most of the present Cityhome units were built on sites that were acquired through the municipal planning process or were assembled directly for housing purposes. Neither kind of site is likely to be available in quantity in the near future. Spin-off sites from the planning process - mainly through commercial density bonusing or the transfer of development rights — are no longer being made available, and are not in prospect in the near term. Marginal industrial lands large enough to accommodate the assembly of substantial housing developments, such as St. Lawrence and Frankel-Lambert, are also no longer available, at

least in favourable locations; while it is possible that scattered commercial properties on some older arterial streets will be available for housing development, these kinds of sites could be in demand for private development purposes as well, and may be difficult to acquire at suitable prices. Potential in-fill sites are also in short supply, and will be high priced. Turnkey proposals appear to be drying up as well.

Over the longer term the main supply of land for potential municipal housing sites will probably be the two comprehensive development programs now underway or in prospect, Harbourfront and the railway lands. Some consideration is being given to long-term redevelopment in the eastern harbour area as well, but at this time would appear to present a fairly speculative prospect for the establishment of municipal housing.

Apart from sites produced through these redevelopment processes, the main potential source of additional municipal housing would be the existing stock of private apartments, particularly smaller low-rise buildings that were built 25 to 35 years ago which for a variety of reasons no longer yield economic returns. While the number of such units cannot be established definitively, it is commonly believed that Toronto has many thousands of apartments of this kind, for which upgrading to contemporary standards or even adequate maintenance is not realistically accessible to the present owners, or which require substantial investment to make them profitable. It is likely that many of these properties are undervalued on the present market. By some estimates, there are numerous buildings in Toronto which could be acquired at perhaps $25,000 to $30,000 per unit, and renovated to modest standards for an additional $10,000 to $15,000. With a finished cost of some $40,000 or $45,000 such apartments would compare favourably with equivalent new construction at an average cost of $60,000 to $70,000 per unit, even if sites for such construction could be found.

Apart from these considerations, which indicate that existing apartments should prove out economically as municipal housing, it is clear that the existing supply of moderate rental apartments is at some risk. Over the last five years there has been an actual or potential loss of some 7,500 medium or moderate rental units, through conversion to ownership housing, luxury renovation, prospective demolition or other reasons. Such a trend, if continued, could seriously affect the availability of an adequate supply of rental housing per se in the community, let alone the stock of units available for moderate and medium income occupancy.

Acquisition of such units would not of itself make them available for immediate use by tenants on Cityhome's waiting list, or by other households requiring affordable housing, since they would presumably in most cases continue to be occupied by sitting tenants. Bringing them into public control would, however, provide an effective means to limit the extent and cost of their repair or renovation, and thus their rental level; increasing the total supply of municipal housing this way would also serve over time to improve the degree of fluidity within that stock and hence its availability to a variety of diverse housing needs. And such dwellings could be brought gradually into the rent supplement program for low-income tenants at a relatively modest cost compared to private rent supplement housing.

Conclusions

The likely scarcity of suitable sites for new municipal housing and the threat to the existing supply of moderate rental apartments indicate a need to broaden the scope of Cityhome's activities. Inclusion of existing buildings in the municipal housing stock would be of great use in meeting program needs and would be of general public benefit as well. What is required is a degree of flexibility in Cityhome's operations that is not available under the current arrangements: to be able to exploit acquisition opportunities as they present themselves, without having to establish advance eligibility for inclusion under the current program regulations; and in general terms the ability to deal with property in an entrepreneurial manner rather than on the basis of formalized rules and practices.

GOVERNMENT RESPONSIBILITIES

As the municipal housing program now operates, the Federal and Provincial governments are jointly responsible for financing the housing; the Provincial government supervises the program's operation; and the municipal agency bears the responsibility for building and managing the housing. Some important issues arise with regard to these different roles.

Federal and Provincial financial contributions

There is a wide and growing disparity in the financial contributions of the Federal and Provincial governments to municipal housing in Toronto. For units built before 1979, under the "old" program (Sec. 15.1), the Federal government is contributing about 60% of the net operating cost, and the Provincial government 40%. For "new" program units built since then (Sec. 56.1), the ratios run 90% to 95% Federal, and 5% to 10% Provincial. Altogether, in 1982 the Federal government provided nearly 70% of the $11 million spent in grant support for Cityhome, and the Provincial government 30%. "New" program units now account for about 1/3 of the total stock of 4,500 units; if new housing continues to be built under the present financial arrangements the disparity between ongoing Provincial and Federal contributions will obviously increase.

The wide disparity results from the way the program is structured. It is evident, among other things, that the current "low end of market" mechanism for setting rents serves to minimize the Provincial financial exposure. Whether the actual results were intended or are simply fortuitous, it is not likely this kind of imbalance can be maintained. It should be assumed that what is increasingly a unilateral funding arrangement for new buildings will not persist in the long run, and that if municipal housing continues to be produced it will require cost sharing arrangements involving higher Provincial contributions.

Municipal role and responsibility

The City's current role in municipal housing essentially is to build and manage, under direct Provincial supervision, a stock of housing financed largely from rents and Federal funds, and built, on occasion, on sites that the City has secured as a by-product of its planning activities. The system involves detailed approvals of financing and construction arrangements from the senior governments, and ongoing approvals of operating decisions from the Province, including the critical processes of rent setting and selection of low-income tenants.

The process has produced an impressive stock of needed housing, but is deficient in important respects. The need for recurring and detailed "approvals" generates significant costs and entails measurable administrative inefficiencies. Conversely, the absence of municipal financial participation and the resultant lack of a true financial stake may well reduce incentives toward management efficiency. The City is constrained from operating the housing stock in a coherent way, as a total portfolio, vis-a-vis its overall housing objectives (respecting such matters as product and tenant mix, for example). The City's essentially "captive" position seriously affects its ability to maintain an ongoing housing program on a more or less even keel, despite periodic and frequent fluctuations in senior government policies, programs and practices. It is unable to exercise the kind of fundamental decision making responsibilities that would be expected to accompany a true partnership status in the enterprise. In the end, the absence of financial participation probably serves to deprive the City of any claim to relative autonomy in the operation of the program.

Conclusions

A basic conclusion in this report, which is dealt with later, is that there should be a fundamental restructuring of the financial mechanisms involved in municipal housing, which combines the production subsidy required to create rental housing at affordable moderate-income levels with the shelter subsidy required to accommodate needy households in such housing. The appropriate roles for the three levels of government relate directly to this basic financial formulation. The following conclusions are drawn:

1. All three government levels should participate in the financing of municipal housing. The two senior governments should continue to be responsible for the necessary capital write-down and shelter subsidy, under a clear formula which expresses their interests in the production of housing as an economic good and the provision of housing assistance as a social benefit; it can be assumed that such a formula would more accurately reflect a basic Provincial social housing responsibility than do the present arrangements, under which the Provincial financial involvement is minimal.

   In addition there should be direct municipal financial involvement through the provision of equity in the form of building sites. This would help to give the City a direct incentive in the efficient production and management of the properties, would establish the City as a legitimate partner in the enterprise, and would underpin the long-term benefit accruing to the City through the appreciation of the capital assets represented by municipal housing.

2. Within this financial structure, the City should operate its housing program with relative autonomy, subject to appropriate performance guidelines which reflect the senior governments' interests. What should be sought is a kind of restrained autonomy which ensures a suitable balance between the need to meet the housing objectives of the two

senior governments and the need to operate the program in accordance with local circumstances. This could be achieved by establishing appropriate reporting and monitoring mechanisms, rather than the present machinery which calls for explicit approval both of individual projects and of various municipal actions. It should also entail the establishment of umbrella financial agreements in place of the present individual project agreements.

3. Constrained municipal autonomy would allow the City to manage its housing stock on an overall portfolio basis, and should be expected to apply to the entire range of management activities, such as rent setting, tenant selection, maintenance reserve practices, tenant management, etc.* It should allow the City to behave in an entrepreneurial fashion, such as engaging in joint ventures or other activities which exploit special circumstances, and in diverse kinds of property transactions. In particular, as noted earlier, an adequate degree of local autonomy would allow the City to add suitable existing apartments to the municipal housing portfolio as the occasion arises.

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* This kind of autonomy is already exercised to an extent. But in important respects, such as rent setting and subsidy eligibility, Cityhome now simply acts as the Province's agent. The current Provincial intention is to formalize and regulate even more rigidly some procedures, such as tenant selection. It is obvious that the kind of autonomy suggested here would require reconsideration of the Province's present expectations.

PROGRAM MODEL

From the review of the matters at issue the desirable shape of the municipal housing program in Ontario can be suggested in "model" form. This is not intended to serve as a set of firm proposals, but rather as a way of eliciting the principles and characteristics which would underlie a fundamental restructuring of the program along the indicated lines, and the likely costs of such a change. These figures, which are only illustrative, are provided in order to indicate the likely scale of what such a change might entail financially.

Principles

1. The program should serve households across the entire band of low and moderate incomes, and should serve the various kinds of households normally present in the community, including families without children and single persons. It should provide a progressive subsidy structure which relates the degree of assistance to relative need. It should operate mainly through integrated buildings and projects which house a cross-section population, and should allow a high degree of tenant mobility, both within buildings and across the total stock, as individual housing needs change over time.

2. The program should involve cost sharing by all three levels of government. It should be financially structured so as to leave individual buildings debt-free after a reasonable period; to provide shelter assistance from external sources over a defined period; and to utilize project assets to support ongoing rental assistance after that period — in effect, to turn long-term development "profits" into operating subsidies through cross-subsidization. To ensure equitable treatment,

the program should be structured so that new tenants are not burdened with accumulated project deficits, nor are in a position to receive the windfall benefit of accumulated project surpluses.

3. The program should provide a reasonable degree of certainty to the parties involved. The governments should know their financial requirements over time, as against open-ended obligations. The municipal housing agency should be able to establish rational and efficient planning and development programs over a reasonable period (3 to 5 years). Management practices, including tenant selection and rent adjustment, should be designed to facilitate project stability. Tenants should be reasonably certain of their future rent requirements, and should have security of tenure irrespective of changes in income. Prospective tenants should be reasonably certain of their waiting list position and prospects.

4. The program should be organized to facilitate an entrepreneurial style of operation. It should allow the agency to respond to development opportunities as they present themselves, including the acquisition of suitable existing buildings which serve program needs; to exploit opportunities to engage in joint activities with private enterprise; to secure maximum benefit from the borrowing potential of the agency's assets; to produce a competitive product capable of long-term asset appreciation; and to conduct its activities on a scale which supports efficient operation in program management and development. The objective in essence is to be able to operate with relative autonomy within a framework of administrative and financial objectives, with suitable internal controls, instead of on the basis of external rules and regulations. Annual budgeting on a program or portfolio basis, rather than by individual projects, would be a key requirement.

Financial Characteristics

1. Municipal financial involvement should take the form of equity participation, by providing the sites for new buildings or the equivalent value of existing buildings acquired for the program. The cost estimatess used in this exercise assume that this would be equivalent to 20% of total capital costs.

2. The capital subsides required to generate affordable moderate rentals should take the form of one-time capital grants (or possibly concessionary loans); this would, in effect, capitalize the cost of what are now annual subsidies, and allow the senior governments to rationalize their financial involvement in municipal housing. It is assumed that these grants would be shared by the Federal and Provincial governments at a stipulated ratio. The grants should be set at a level expected to bring the project into a positive cash flow position in a relatively short period, perhaps 5 to 7 years.

3. The additional cost of providing rental assistance (deep subsidies for low-income tenants, shallow subsidies for low-to-moderate incomes) could also be capitalized as a one-time grant, with the same cash flow target. Alternatively it could continue to be provided as an ongoing payment, as at present, but only over the set period. After this period, internal project "profits" should be expected to cover the required rental subsidies.

4. The likely costs of this kind of financial model have been estimated on the basis of current cost experience and varying assumptions as to tenant mix, cash flow and mortgage arrangements. For the sake of convenience, the approach utilized in this analysis involves a one-time grant covering both capital write-down and rental subsidy over the stipulated period. As noted, these estimates also involve a municipal equity contribution of 20% in the form of land. Based on a pay-out

period (negative cash flow) of around 5 or 6 years, the indicated cash grant is estimated to run to about $35,000 per unit on the basis of the present tenant mix (roughly 40% RGI and 60% LEM). With a stratified model involving deep-subsidy, shallow subsidy and LEM tenants in equal proportions, the indicated cost is estimated at about $42,000 per unit.*

5. These illustrative figures are designed to give a rough indication of the required scale of funds if the municipal housing program is restructured to include municipal participation, and if the senior government participation is converted to a front-end capital write down (i.e. "in and out"). The analysis has been applied to a prospective Cityhome program of about 500 units a year. This is a production rate which provides an efficient level of operations and is consistent with the agency's organizational resources. It is as well a supply rate that would probably serve to stabilize the size of the active waiting list at more or less present levels, as against the persistent increases of recent years.

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* A comparable estimate, using a somewhat different approach, is that the capital cost write-down required to generate moderate-income rentals (exclusive of shelter subsidy), with a 10-year cash flow target, is around $20,000 per unit.

6. For the City, this level of activity would require an annual property investment of about $7 million in mortgagable assets; this might be expected, in current circumstances, to be equivalent to perhaps $5 million in actual outlay. It would be assumed that the required funds would be provided through the operation of a property bank (comprising land and existing buildings) similar to the City's present land banking operation, which would serve as a revolving fund as properties are mortgaged out at various times. Unlike the municipal 7½% contribution under previous social housing programs, which had no residual value, the suggested form of financial participation would involve direct municipal ownership of the program assets.

7. The required capital write-down to produce 500 units a year and to provide the initial operating subsidies over a 5 to 6 period for the proposed occupancy target (low, low-moderate, and moderate incomes) would amount to a total of about $21 million. This would represent the combined Federal and Provincial grants under the suggested arrangement. While this figure cannot be matched directly against the current annual expenditures on the program, some indicative comparisons can be made.

   The present Cityhome portfolio, which comprises a composite of many different kinds of individual project arrangements, involved combined grant support in 1982 of about $2,500 per unit (70% Federal, 30% Provincial). This does not represent the current experience with new development, which again depends on individual project circumstances. For Cityhome's last two projects, for example, the subsidy is considerably higher. At Asquith Place, the first year subsidy will amount to $8,400 per unit (96% Federal, 4% Provincial), and at Newbold Avenue it will

be about $5,300 per unit (90% Federal, 10% Provincial). The annual grants will decrease over time. As the program is now structured, the Provincial contribution ends in a period of perhaps 3 to 5 years, and the Federal contribution is expected to last 25 to 30 years. It is against this relatively open-ended obligation (at least for Federal funds), that the indicated one-time write-down of about $42,000 per unit should be assessed.

SOURCES

A wide range of studies and reports dealing with various aspects of housing were examined for the purposes of the review. Additional information was provided by the Toronto Housing Department and the Planning and Development Department. A series of statistical and financial analyses carried out by the Housing Department were of particular use in developing the findings and proposals in this report.

Representatives of various groups and agencies involved in housing were consulted in the review. These included the following.

Canada Mortgage and Housing Corporation
Ontario Region and Toronto Branch

Ontario Housing Corporation

Metropolitan Toronto Housing Company

City of Ottawa Non-Profit Housing Corporation

Region of Peel Non-Profit Housing Corporation

Association of Municipalities of Ontario

Cooperative Housing Federation of Canada

Labour Council Development Foundation

Lantana Homes Inc.

Chris Smith and Associates

Toronto Home Builders Association

Toronto Mortgage Lenders Association

Urban Development Institute

The cooperation of all these parties, and the assistance provided by the municipal staff, is gratefully acknowledged.